

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“Authority”)
STAFF SUMMARY AND RECOMMENDATION**

**Prototypes, Centers for Innovation in Health, Mental Health and Social Services
 (“Prototypes”)**

Resolution Number 2011-06

July 28, 2011

PURPOSE OF THE REQUEST:

Prototypes, Centers for Innovation in Health, Mental Health and Social Services (“Prototypes”) requests the Authority approve a subordination agreement relating to the Gross Revenue Pledge, which will place the Authority in a subordinate position behind International City Bank.

BACKGROUND:

At its June 24, 1998 meeting, the Authority approved Resolution Number HII-59 for Prototypes and authorized a HELP II loan for \$500,000. Loan proceeds were approved (to be used along with other funding sources) for the acquisition of 3.5 acres of land (\$836,500) in Oxnard (3779 West Gonzales Road, Oxnard, CA 93030) and for the renovation of two residential buildings totaling approximately 17,000 square feet located on that land for use as a residential substance abuse treatment center for women and their children. Prototypes is current on its payments with the Authority. The current balance of the HELP II loan is approximately \$90,000 with two years remaining. At the time of the financing, the property appraised for \$1.1 million and was purchased below market value. At the currently \$90,000 outstanding HELP II loan balance, the Authority is firmly secured with the property lien by itself, with a modest loan to value ratio of approximately 8%.

In June 2011, Prototypes requested the Authority subordinate a portion of its security interest on Prototype’s gross revenues relating to its present and future accounts to International City Bank. As a requirement to being awarded a \$1 million Emergency Housing and Assistance Program (EHAP) grant (to be used to rehabilitate their Pomona Women’s Center), Prototype must secure a \$500,000 line of credit with a bank. International City Bank is willing to approve the line of credit if it can obtain a lien on a portion of Prototypes’ corporate gross revenues. Staff has reviewed the most recent audited financial statements for Prototypes (period ending FY 6/30/10) as well as its unaudited interim financial statements (period ending 6/30/11) and found that it appears to remain fiscally healthy, with a solid debt service coverage ratio of 2.28x for FY 2010.

Staff recommends the Authority agree to subordinate the Authority’s lien on a portion of its security interest on corporate gross revenues to International City Bank given the current financial position of Prototypes and relatively low loan to value ratio of approximately 8% to enable Prototypes to proceed in securing a line of credit as a requirement for obtaining the EHAP grant.

RECOMMENDATION:

Staff recommends the Authority approve Resolution Number 2011-06 to permit the modification of its security interests in the Gross Revenue Pledge of the HELP II loan previously approved at the Authority’s June 24, 1998 meeting. Specifically, staff recommends subordinating the Authority’s security interest position in a portion of Prototype’s Gross Revenue Pledge in favor of International City Bank for the remaining term of the loan.